



Office of Audit Services  
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October 21, 2009


Employer Code: 5250-5404  
Job Number: P08-046

Department of Child Support Services  
Deborah Silva – Chief, Personnel & Business Support  
P.O. Box 419064  
Rancho Cordova, CA 95741

Dear Ms. Silva:

Enclosed is our final report on the results of the state agency review completed for the Department of Child Support Services. As part of our resolution process, we have referred the issues identified in the report to the appropriate divisions at CalPERS. Please work with these divisions to address the recommendations specified in our report. It was our pleasure to work with your department and we appreciate the time and assistance of you and your staff during this review.

Sincerely,

  
Margaret Junker, CIA, CPA  
Interim Chief Auditor, Office of Audit Services

Enclosure

cc: Finance Committee Members, CalPERS  
Peter Mixon, General Counsel, CalPERS  
Lori McGartland, Chief, ERSD, CalPERS  
Mary Lynn Fisher, Chief, BNSD, CalPERS  
Holly Fong, Chief, EMHS, CalPERS

# California Department of Child Support Services



## State Agency Review



Office of Audit Services

Employer Code 5250-5404  
Job # P08-046

October 2009

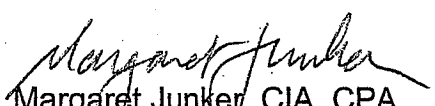


# **Memorandum**

California Public Employees' Retirement System

Date: October 21, 2009  
Employer Code: 5250-5404  
Job Number: P08-046

To: Ronald L. Seeling, Chief Actuary  
Actuarial and Employer Services Branch

From:   
Margaret Junker, CIA, CPA  
Interim Chief Auditor, Office of Audit Services

Subject: FINAL REPORT  
Department of Child Support Services

We have enclosed our final report of the Department of Child Support Services (Department) as it relates to the Department's contract with the California Public Employees' Retirement System (CalPERS).

We discussed the risks and recommendations with the Department's management and key staff members. Their written response indicates agreement with the issues noted in the report. The Department's written response is included as an appendix to the report.

Attachment

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# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

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## RESULTS IN BRIEF

We reviewed the California Department of Child Support Services' (DCSS) enrolled individuals, health and retirement contributions, member earnings and the required health, retirement and Automated Communications Exchange System (ACES) documentation for employees included in our test sample. A detail of the exceptions is noted in the Risk and Mitigation Table. Specifically, the following exceptions were noted during the review:

- Incorrectly enrolled a temporary/part-time employee in CalPERS membership.
- Did not have proper health benefit documentation on file for five members.
- Did not provide verification of eligibility for four dependents enrolled in health benefits.
- Did not correctly complete and maintain ACES user security agreements for four employees.

## BACKGROUND

The California Public Employees' Retirement System (CalPERS) provides a variety of programs serving members employed by more than 2,500 local public agencies as well as state agencies and state universities. The agencies contract with CalPERS for retirement benefits, with CalPERS providing actuarial services necessary for the agencies to fund their benefit structure. In addition, CalPERS provides services which facilitate the retirement process.

CalPERS Employer Services Division (ERSD) manages contract coverage for public agencies and receives, processes, and posts payroll information. CalPERS Benefit Services Division (BNSD) provides services for eligible members who apply for service or disability retirement. BNSD sets up retirees' accounts, processes applications, calculates retirement allowances, prepares monthly retirement benefit payment rolls, and makes adjustments to retirement benefits. The Office of Employer and Member Health Services (EMHS), as part of the Health Benefits Branch (HBB), provides eligibility and enrollment services to the members and employers that participate in the CalPERS Health Benefits Program, including state agencies, public agencies, and school districts.

State members include state miscellaneous, highway patrol, state safety, state industrial and state peace officer/firefighter (POFF) members. California Government Code (GC), §20370 through §20445, provides detailed definitions for these classifications. These classifications denote different retirement benefit formulas, which include: 2% at age 55 for state miscellaneous or industrial

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## CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

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members (GC §21354.1); 3% at age 50 for state patrol members (GC §21362.2); 2.5% at age 55 for state safety members (GC §21369.1); 3% at age 55 for POFF and local safety members (GC §21363.1); and, 3% at age 50 for POFF members (GC §21363.4 and §21363.8).

Retirement allowances are computed using three factors: years of service, age at retirement and final compensation. Final compensation is defined as the highest average annual compensation earnable by a member during the last one or three consecutive years of employment unless the member elects a different period with a higher average. State and school members use the one-year period. Local public agency members' final compensation period is three years unless the agency contracts with CalPERS for a one-year period.

Unlike contracting agency retirement benefit program operations, state agencies do not report member enrollment and monthly payroll data to CalPERS. Instead, each state agency inputs membership and payroll information with special designated codes into the Personnel Information Management System (PIMS) through Personnel Action Request forms. PIMS contains official personnel, payroll, and retirement information for state employees. The State Controller's Office (SCO) has the responsibility for maintenance and security of PIMS.

In accordance with the SCO's published Personnel Action Manual and Payroll Procedures Manual, state agencies input necessary personnel and payroll changes into PIMS. The system automatically passes data fields that are necessary for retirement benefit calculations to CalPERS via CalPERS' Transaction Log. The data from PIMS updates the appropriate CalPERS application systems, such as, the Contribution Reporting System, Retirement Information Benefit System and CalPERS Online Member and Employer Transaction System. One critical data element passed on from state agencies to CalPERS, via the SCO, is the employee's Retirement Account Code (RAC). The RAC is a one or two digit alpha or numeric code used by PIMS to designate an employee's retirement status. During system updates from SCO to CalPERS, the RAC for each employee is converted to a coverage group code, which is significant for determining retirement contribution levels while the employee is active and the retirement formula when the employee is applying for retirement.

In general, when changes are mandated by law or contract, without the need for state agencies to prepare payroll change documents, payroll changes may be made automatically by the SCO. However, each agency has full responsibility for preparing accurate Personnel Action Request forms, employee attendance reports, and selecting appropriate compensation codes. California State Civil Service Pay Scales are published by the Department of Personnel

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## CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

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Administration. The Payroll Procedures Manual, at Section G 105, outlines miscellaneous special compensation payment processing methods and whether they are subject to CalPERS for the purpose of retirement calculation.

The SCO also has the responsibility for processing the health care contribution amounts for state employees and state agencies. Based on the information contained in PIMS, the SCO identifies and remits the state's contribution and the amounts authorized by employees and annuitants to be deducted from their salaries or retirement allowances for payment of contributions.

The DCSS is the state agency designated to administer the Social Security Act Title IV-D-State Plan for Child and Spousal Support. The state plan is required to ensure all functions necessary to establish paternity, collect child support payments from non-custodial parents, and distribute child support payments to custodial parents. The DCSS commenced operations in calendar year 2000.

### SCOPE

As part of the Board approved plan for fiscal year 2008/2009, we reviewed the DCSS' payroll reporting and enrollment processes as these processes relate to the DCSS' health and retirement mandates with CalPERS. The objective of this review was limited to the determination that the DCSS complied with applicable sections of the California Government Code (Sections 20000 et seq.) and Title 2 of the California Code of Regulations and that prescribed reporting and enrollment procedures were followed. The on-site fieldwork for this review was conducted during February 2009.

The review period was limited to the examination of sampled records and processes from January 1, 2006 through December 31, 2008. To accomplish the review objectives, we performed the following:

- ✓ Reviewed the mandated requirements the DCSS had with CalPERS, correspondence files maintained at CalPERS, and employment agreements the DCSS had with its employees.
- ✓ Interviewed key staff members to obtain an understanding of the DCSS' personnel and payroll procedures.
- ✓ Reviewed the payroll transactions for employees and compared the DCSS' payroll information with the data reported to CalPERS to determine whether the DCSS correctly reported compensation.

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## CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

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- ✓ Reviewed the DCSS' payroll information reported to CalPERS for the sampled employees to determine whether payrates were reported pursuant to public salary information.
- ✓ Reviewed the DCSS' enrollment practices pertaining to temporary employees, retired annuitants, and independent contractors to determine whether the individuals met CalPERS membership requirements.
- ✓ Reviewed the DCSS' classification of employees to determine whether the DCSS reported employees in the appropriate coverage groups. The RAC, which is entered by the DCSS into the SCO system, is converted to the coverage group code when the information is reported to CalPERS.
- ✓ Reviewed the DCSS' calculation and reporting of unused sick leave balances for retiring employees.
- ✓ Reviewed employees and their dependents to determine whether the DCSS properly enrolled eligible individuals into CalPERS Health Benefits Program.
- ✓ Determined whether the DCSS maintained the required user security documents on file and reasonable security procedures were in place for ACES users.

# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

## RISK AND MITIGATION TABLE

In developing our opinions, we considered the following risks and mitigations. We also include our observations and recommendations.

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
1. The DCSS may not accurately report compensation to CalPERS.	We reviewed payroll records and compensation reported to CalPERS for a sample of 14 employees over two service periods. The service periods reviewed were October 2007 (10/07-0) and October 2008 (10/08-0). We determined that compensation was accurately reported to CalPERS.	None.
2. The DCSS may not report payrates in accordance with publicly available salary schedules.	We reviewed payrates reported to CalPERS and reconciled the payrates to the Department of Personnel Administration's public salary information to determine whether payrates for the sampled employees were properly authorized. We determined the DCSS paid and reported salaries pursuant to the authorized published salary information.	None.
3. The DCSS may not enroll all eligible employees into CalPERS membership.	We selected a sample of eight temporary/part-time employees and examined the number of hours worked in fiscal years 2006/2007 and 2007/2008 to determine whether they reached or exceeded the 1,000 hour membership eligibility criteria and were timely enrolled, or whether they had prior membership and should have been enrolled upon employment by the agency.	The DCSS should review all hours worked in a fiscal year by all temporary/part-time employees and timely enroll those that meet membership eligibility criteria.

# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>3. The DCSS may not enroll all eligible employees into CalPERS membership. (continued)</p>	<p>We determined that the temporary/part-time employees in our sample were properly enrolled or excluded from CalPERS membership and timely enrolled into CalPERS, with the exception of one individual who met eligibility by reaching the 1,000 hour threshold in June 2008. The Agency should have enrolled this employee and reported earnings effective July 1, 2008. However, this employee was inappropriately enrolled effective March 1, 2008, prior to becoming eligible for membership.</p> <p>Government Code, § 20305(a), states, in part, "An employee serving on a less than full-time basis is excluded from this system unless: ...(3) His or her employment is, in the opinion of the board, on a seasonal, limited-term, on-call, emergency, intermittent, substitute, or other irregular basis, and is compensated and meets one of the following conditions:...(B) The person works more than... 1,000 hours within the fiscal year, in which case, membership shall be effective not later than the first day of the first pay period of the month following the month in which... 1,000 hours of service were completed. For purposes of this subdivision... that membership is effective after he or she has completed 1,000 hours of compensated service in a fiscal year."</p>	<p>The DCSS should work with CalPERS ERSD to assess the effect of the membership issue and to determine what adjustments are necessary.</p> <p>A confidential list identifying the individual mentioned in this report has been sent to the DCSS and the CalPERS ERSD as an appendix to our draft report.</p>

# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>4. The DCSS may unlawfully employ retired annuitants.</p>	<p><u>Maximum Hours Threshold</u></p> <p>We reviewed the hours worked for eight retired annuitants in fiscal years 2006/2007 and 2007/2008. Our sample testing revealed that no retired annuitants exceeded the 960 hour threshold.</p> <p><u>Bona Fide Separation</u></p> <p>We determined that two of the retired annuitants properly met the bona fide separation in service rule, per Government Code, § 21220.5. We also determined that the bona fide separation in service rule was not needed for six of the sampled retired annuitants as they retired prior to enactment of the law.</p>	<p>None.</p> <p>None.</p>
<p>5. The DCSS may not appropriately report members under the proper classification coverage group code.</p>	<p>We examined the appropriateness and accuracy of the assigned RACs by testing a sample of 11 employees representing 11 types of RACs utilized by the DCSS. We traced each sampled employee's RAC and verified whether the coverage group was consistent with the information in the CalPERS database. We determined the DCSS accurately assigned RACs in accordance with SCO's Personnel Action Manual.</p>	<p>None.</p>

# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
6. The DCSS may not accurately report unused sick leave balances for retiring CalPERS members.	We reviewed the unused sick leave balances for a sample of five retirees to determine if the DCSS properly computed and reported the balances. We determined the DCSS accurately certified retiring employees' unused sick leave balances to CalPERS.	None.
7. The DCSS may not properly enroll eligible employees and their dependents in health benefits.	<p>We reviewed a sample of seven employees to assess the health benefits eligibility and enrollment of members and their dependents. Our sample testing revealed the DCSS properly enrolled eligible employees and their dependents in CalPERS' health benefits program, except for the following:</p> <p>The DCSS did not have the required and/or had an incomplete Declaration of Health Coverage (HB-12A) on file for five members and did not provide verification of dependent eligibility for four dependents enrolled under two members' health benefits.</p> <p>The HB-12A provides information on enrollment options and consequences for non-enrollment and helps to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA). Effective January 1, 1998, each employee must sign the HB-12A when they are first eligible to enroll or when they make any change to their health coverage. This includes open enrollment changes, changing health plans when moving, adding or deleting a</p>	<p>The DCSS must ensure that the proper member and dependent enrollment documentation is on file at the DCSS within 60 days from the date of our final report.</p> <p>Please contact the CalPERS HBB at (916) 795-3836, once the documentation is on file.</p> <p>A confidential list identifying the individuals mentioned in this section of the report has been sent to the DCSS and CalPERS HBB as an appendix to our draft report.</p>

# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>7. The DCSS may not properly enroll eligible employees and their dependents in health benefits. (continued)</p>	<p>dependent, or canceling health benefits. The employer must provide the HB-12A at the time the employee requests enrollment or with the Health Benefit Plan Enrollment (HBD-12) form. The employer also must provide the employee a copy of the signed form and keep the original in the employee's file.</p> <p>California Code of Regulations, § 599.500, states, in part, "(f) 'Enroll' means to file with the employing office properly completed Health Benefits Plan Enrollment Form electing to be enrolled in a health benefits plan...(h) 'Register not to enroll' means to file with the employing office a properly completed Health Benefits Plan Enrollment Form electing not to be enrolled in a health benefits plan."</p> <p>The CalPERS Health Benefits Procedure Manual, page 03-03, states, "To assure that only eligible dependents are covered, CalPERS, as well as the contracting agencies, have the right to request any documentation needed to support dependent eligibility at the time of enrollment, or any time thereafter."</p>	
<p>8. The DCSS may not maintain appropriate ACES security procedures.</p>	<p>We reviewed the security procedures for the DCSS' ACES users to determine whether reasonable security precautions were maintained and to determine whether the required security documents were properly completed and filed for ACES users.</p>	<p>The DCSS should work with CalPERS ERSD to ensure that ACES user security agreements are completed, submitted and maintained.</p>

# CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

RISK	MITIGATION & OBSERVATION	RECOMMENDATION
<p>8. The DCSS may not maintain appropriate ACES security procedures. (continued)</p>	<p>We determined the DCSS practiced reasonable security procedures to protect passwords and unauthorized access to ACES. However, the DCSS did not complete and maintain the appropriate ACES documentation for four ACES users, including two employees who should have been disabled and/or deleted immediately and two ACES users who had no user form on file at the DCSS.</p> <p>The Employer User Security Agreement form (AESD-43), states, in part, "This form must be completed for each employee using CalPERS online access and be available to CalPERS upon request. Forms must be <b>RETAINED IN A SECURE WORK SITE LOCATION</b> of the Employer, for the life of the Agreement and for two years following the deactivation or termination of the Agreement." The Aces User Guide, page 107, states it is the ACES Account Administrators' responsibility to:....Immediately disable the ACES access of any employee no longer needing access, leaving employment, or taking an extended leave of absence. Fill out online and electronically send the Delete "ACES User Access" (AESD-42) form to CalPERS using the "Submit" button."</p>	<p>A confidential list identifying the individuals mentioned in this report has been sent to the DCSS and CalPERS ERSD as an appendix to our draft report.</p>

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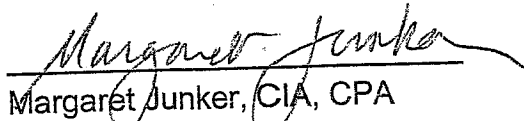
## CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

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### CONCLUSION

We limited this review to the areas specified in the scope section of this report. We limited our test of transactions to samples of the DCSS's payroll reports and personnel records. The sample testing procedures provide reasonable, but not absolute, assurance that these transactions complied with the California Government Code, except as noted above.

Respectfully submitted,

  
Margaret Junker, CIA, CPA  
Interim Chief Auditor,  
Office of Audit Services

Date: October 2009

Staff: Michael Dutil, CIA, Senior Manager  
Jacque Conway, CIA, CPA, Manager  
Terry Heffelfinger, Quality Reviewer  
Emma Shaw

# APPENDIX

## DEPARTMENT'S WRITTEN RESPONSE

## CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



TO: EMMA SHAW, AUDITOR  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
OFFICE OF AUDIT SERVICES

FROM: MARTHA ROJO-JARAMILLO, PERSONNEL OFFICER  
Department of Child Support Services

DATE: July 7, 2009

SUBJECT: Department Response to State Agency Review Draft Report

This is in response to the draft report of the Department of Child Support Services (DCSS) CalPERS review that was provided to our office June 2009.

The draft report was reviewed by the Personnel Officer, the Chief of Personnel and Business Support Branch, and Office of Audits and Compliance representative with DCSS. We are in agreement with the report and recommendations with the following notations:

Risk #3 – Recommendation 1: The DCSS should review all hours worked in a fiscal year by all temporary/parti-time employees and timely enroll those that meet membership eligibility criteria.

Note: DCSS has created and implemented the printing of Human Resources Information System (HRIS) report titled "Interim Hours" monthly. The report is reviewed for identification of any intermittent status employee nearing or meeting the 1000 hours worked criteria for timely enrollment into CalPERS membership

Recommendation 2: DCSS has been working with the CalPERS ERSD to assess the membership issue to determine adjustments necessary for the employee named on the Confidential List provided. However, staff was asked by ERSD to not make any update/entries until this review was completed.

Risk #7 – Recommendation: The DCSS must ensure that the proper member and dependent enrollment documentation is on file at the DCSS within 60 days from the date of final report.

Note: The two employees listed on the Confidential List provided were transfers to DCSS from another state department/agency, verification and enrollment of dependent children was initiated and completed at the previous departments. DCSS will contact the employees to obtain the necessary verification of eligibility.

If you have any questions or concerns regarding this matter, please contact me at (916) 464-5075.



Employer Services Division  
P.O. Box 942709  
Sacramento, CA 94229-2709  
Telecommunications Device for the Deaf - (916) 795-3240  
888 CalPERS (or 888-225-7377) FAX (916) 795-2330

November 17, 2009

Employer Code # 5250-5404

Department of Child Support Services  
Deborah Silva – Chief, Personnel & Business Support  
P.O. Box 419064  
Rancho Cordova, CA 95741

Dear Ms. Silva:

We have received a copy of the final State Agency Review for the Department of Child Support Services from the CalPERS Office of Audit Services.

We would like to assist you in resolving the finding(s) in the report. Please refer to the table below for information regarding each finding. Please provide a written response to the appropriate contact person listed below within **thirty (30) days** of this letter indicating your progress in resolving these risk(s).

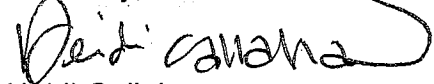
Risk	Page	Comments	Contact
3  The DCSS may not enroll all eligible employees into CalPERS membership.	5	<u>Temporary/Part-time Employees</u> – Temporary/part-time employee qualified for membership, but was inappropriately enrolled effective March 1, 2008, prior to becoming eligible for membership.  Please submit enrollment documents, via ACES or AESD-1s, and report needed payroll information, via MEM-1344s, for the employee listed in the confidential listing of your audit. The MEM-1344 and the AESD-1 forms are located on the CalPERS Website, <a href="http://www.CalPERS.ca.gov">www.CalPERS.ca.gov</a> , under Employer Forms and Publications Directory. Please fax documentation to Liz Lott at (916) 795-4166.  If I can be of further assistance to you, please let me know by calling me at (916) 795-3495.	Liz Lott
8	9	The DCSS did not complete and maintain	Rhonda

The DCSS may not maintain appropriate ACES security procedures		<p>the appropriate ACES documentation for four ACES users, including two employees who should have been disabled and/or deleted immediately and two ACES users who had no user form on file at the DCSS.</p> <p>Faxed copies of security agreements to Account Administrator. Advised Account Administrator to staple Delete ACES User Access forms to original security agreements following the request to delete ACES User access.</p> <p>The California Department of Child Support Services is currently in compliance with ACES.</p>	Townsend
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For any questions concerning these risks, you may contact the Employer Contact Center at **888 CalPERS** (or **888-225-7377**). If you have already taken action on any of the risks contained within the review, please contact us at the above number or send a letter to the address below:

CalPERS  
Employer Services Division  
P.O. Box 942709  
Sacramento, CA 94229-2709

Sincerely,



Heidi Callahan  
Employer Review Liaison  
Employer Services Division

cc: Office of Audit Services